

Message Text

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PAGE 01 STATE 097520
ORIGIN SS-25

INFO OCT-01 ISO-00 SSO-00 /026 R

DRAFTED BY CEA: C SCHULTZE: VS

APPROVED BY EUR: R D VINE

NSC: H OWEN

S/-O:JTHYDEN

EUR/RPE: R S GELBARD

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TO AMEMBASSY LONDON IMMEDIATE

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E.O. 11652: GDS

TAGS: ECON, OCON,

SUBJECT: SUMMIT PREPARATIONS: ECONOMIC SITUATION

1. THE FOLLOWING LETTER FROM CHARLES SCHULTZE, CHAIRMAN, COUNCIL OF ECONOMIC ADVISERS, SHOULD BE DELIVERED ON MONDAY MORNING, APRIL 17, TO SIR DOUGLAS WASS, PERMANENT SECRETARY, H.M. TREASURY.

2. DEAR SIR DOUGLAS:

I HAVE BEEN ASKED BY THE SUMMIT PREPARATORY GROUP TO CONVENE REPRESENTATIVES OF THE COUNTRIES THAT WILL BE PARTICIPATING IN THE BONN SUMMIT IN JULY FOR THE PURPOSE OF PREPARING A PAPER ON THE ECONOMIC SITUATION IN OUR COUNTRIES AND THE WORLD, AND TO CONSIDER WHAT ACTIONS BY EACH OF US MIGHT PROVIDE A BASIS FOR A MORE STABLE AND STRONGER

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WORLD ECONOMY. THE PAPER WOULD BE SUBMITTED TO THE SUMMIT PREPARATORY GROUP AS AN AID TO FURTHER SUMMIT PLANNING AND PERHAPS FOR CONSIDERATION BY HEADS OF STATE AT THEIR MEETING.

I ASSUME THAT YOU WILL REPRESENT YOUR GOVERNMENT IN THIS ENDEAVOR. WE HAVE LITTLE TIME FOR THIS WORK AS THE

PREPARATORY GROUP WILL NEED OUR FINISHED PRODUCT BEFORE

MAY 27. I PROPOSE THAT WE PROCEED AS FOLLOWS:

FIRST, EACH OF YOU WOULD PREPARE AND SEND TO ME, NO LATER THAN APRIL 25, A STATEMENT COVERING THE FOLLOWING ITEMS:

1. WHAT IS THE ECONOMIC SITUATION LIKELY TO BE IN YOUR COUNTRY AT MIDYEAR AND HOW DO YOU SEE IT DEVELOPING DURING THE SECOND HALF OF 1978 AND IN THE COURSE OF 1979? YOU SHOULD PAY PARTICULAR ATTENTION TO THE OUTLOOK OVER THAT PERIOD FOR DOMESTIC DEMAND GROWTH, INFLATION, UNEMPLOYMENT, AND THE CURRENT ACCOUNT.

2. WHAT MONETARY, FISCAL, AND INCOMES POLICIES UNDERLIE YOUR OUTLOOK?

3. WHAT ARE YOUR EXPECTATIONS CONCERNING ECONOMIC DEVELOPMENTS IN OTHER INDUSTRIAL COUNTRIES AND IN DEVELOPING COUNTRIES?

4. WHAT ARE THE SIGNIFICANT ECONOMIC AND POLITICAL CONSTRAINTS THAT YOU SEE WHICH LIE IN THE WAY OF IMPROVING ON THIS OUTLOOK (I.E., ACHIEVING MORE RAPID GROWTH, LOWER INFLATION OR A MORE SUSTAINABLE CURRENT SECRET

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ACCOUNT POSITION)? WHAT ACTIONS BY YOUR COUNTRY OR BY OTHER COUNTRIES WOULD RELIEVE THESE CONSTRAINTS?

5. WE HAVE BEEN SPECIFICALLY ASKED BY THE PREPARATORY GROUP TO ASSESS THE PROSPECTS FOR INVESTMENT IN OUR ECONOMIES AND TO EXPLORE THE WAYS IN WHICH ANY IMPEDIMENTS TO INVESTMENT GROWTH MIGHT BE ALLEVIATED. IN DISCUSSING THE IMPORTANCE OF EXPANDED INVESTMENT YOU SHOULD DISTINGUISH CONSIDERATIONS RELATING TO AGGREGATE DEMAND FROM CONSIDERATIONS RELATING TO CAPACITY EXPANSION, PRODUCTIVITY, AND OTHER SUPPLY-RELATED MATTERS.

6. ANY OTHER INFORMATION OR VIEWS THAT YOU FEEL WOULD BE USEFUL TO ME IN PREPARING AN INITIAL DRAFT.

SECOND, AFTER RECEIVING YOUR SUBMISSION, I WILL PREPARE A DRAFT PAPER FOR THE PREPARATORY GROUP WHICH ATTEMPTS TO DERIVE A CONSENSUS BUT ALSO NOTES DIFFERENCES AND INCONSISTENCIES IN ASSUMPTIONS. THIS PAPER WILL BE SENT TO YOU BY MAY 15.

THIRD, WE WILL MEET IN WASHINGTON FOR TWO DAYS,
PROBABLY MAY 21 AND MAY 22. (PLEASE CABLE IF THESE

DATES ARE IMPOSSIBLE. THE ONLY OTHER ALTERNATIVE IS
MAY 23 AND 24.) USING THE MAY 15 DRAFT WE WILL PREPARE
A FINAL PAPER FOR THE PREPARATORY GROUP, WHICH WILL
MEET ON MAY 27.

OUR TASK IS AN IMPORTANT ONE. WE WILL ALL HAVE TO
BRING OUR BEST ANALYTICAL JUDGMENT TO BEAR ON THE
PROBLEMS BEFORE US AND BE SENSITIVE TO THE DIFFICULTIES
THAT EACH OF US FACES IF WE ARE TO PROVIDE USEFUL
GUIDANCE. I LOOK FORWARD TO WORKING WITH YOU IN THIS
EFFORT.

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SINCERELY,

CHARLES L. SCHULTZE

CHRISTOPHER

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC CONDITIONS, SUMMIT MEETINGS, PUBLIC CORRESPONDENCE
Control Number: n/a
Copy: SINGLE
Draft Date: 15 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE097520
Document Source: CORE
Document Unique ID: 00
Drafter: C SCHULTZE: VS
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780163-0039
Format: TEL
From: STATE
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780452/aaaabryr.tel
Line Count: 142
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: eb0d28ad-c288-dd11-92da-001cc4696bcc
Office: ORIGIN SS
Original Classification: SECRET
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: SECRET
Previous Handling Restrictions: EXDIS
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23 jun 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2954723
Secure: OPEN
Status: NATIVE
Subject: SUMMIT PREPARATIONS: ECONOMIC SITUATION
TAGS: ECON, OCON, UK, (SCHULTZE, CHARLES), (WASS, DOUGLAS)
To: LONDON
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/eb0d28ad-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014